

Report on Session 1

In opening the roundtable 1, which was dedicated to the analysis of the contribution of domestic and international factors to growth, Mr. Lechevalier, Founding Director of Fondation France-Japon de l'EHESS, and associate professor at EHESS (Paris), thanked the former Governor Fukui and the Canon Institute for Global Studies for their collaboration to organize this symposium. He also thanked the sponsors of this symposium, Nikkei, ANA, Toyota Motors, Mitsui Bussan, Banque de France, French Embassy, as well as the French Chamber of Commerce in Japan and the University of Tokyo. He also expressed his gratitude to Governor Noyer and to the other speakers who accepted to fly a long way to Japan despite their busy schedules.

Having expressed the support of French people to Japanese people, who have faced a particularly difficult year, he explained the concept of the symposium and of the first roundtable. According to him, since 2008, the world is facing the most severe economic crisis since the end of World War II, and it is very difficult to forecast what will be the situation, even in coming weeks or months. This is exactly because the focus is exclusively on short-term and domestic or regional issues so that it may be fruitful to gather the best Japanese and French economists to discuss medium and long term issues in depth. The crisis has deeply shaken what we took for granted, and it may be necessary to reconsider some basic questions and principles.

Mr. Bourguignon, Director of the Paris School of Economics and Professor at Ecole des Hautes Etudes en Sciences Sociales (EHESS), has been the first speaker of this session. He began his talk in underlining the idea that the title of this symposium was somewhat optimistic in considering the models of growth after the global crisis. By contrast, he decided to entitle his talk 'Long Run Prospects for the Global Economy seen from the Middle of Crisis'.

His main point has been the following: there are forces in the global economy, which have shaped its evolution over the last 20 years and which are likely to shape its evolution in the next 20 years, too. Despite the crisis, those forces will remain very active. We are living in a changing world and because of that it is important to have some ideas to get some landmarks about what the world could be in the years to come.

In particular, Prof. Bourguignon highlighted the fact that there are basically two big forces at the global level. One is the emergence of new major actors, the North-South rebalancing, and the very intensive geographic allocation of economic activities. At the same time, we are in the world where globalization has gone very fast in many areas; in merchandise trade, in finance, in knowledge, in migration of skilled people, etc.

The world economy with those two major forces is subject to major uncertainties and the present crisis and the financial crisis that we went through back in 2008 and 2009, is an example of this uncertainty.

Globalization itself has been disorderly and has led to dangerous disequilibria, like the current financial crisis. This crisis is indeed due to what was called at some stage 'global imbalances', in particular the excess savings in one part of the world, namely Asia and the lack of savings or dissaving in another part of the world, namely the United States. To some extent, the subprime crisis, the excessive risk taken by the financial sector may be linked to the drop in cost of money, the drop in interest or re-interest rates that we have seen for the last 15 years mostly because of both the globalization and the emergence of new actors.

Then, Prof. Bourguignon argued that those deep structural changes and uncertainties make it necessary to try to identify where we are going and to get some idea about what the world could look like in the near future. That is why he proposed a "big picture" of the world economy in 2030. Before showing the results of his analysis, he expressed a caveat that he had to make a certain number of assumptions and we should be therefore cautious in analyzing these results.

The first stylized fact, and certainly the most amazing, is the increase in the world population, which goes from 2.5 billion people in 1950 to 8 billion in 2030. Moreover, this increase is not equal, in the sense that the world tomorrow is a world where developed countries, including Japan, represent smaller and smaller shares of the whole population.

The second stylized fact concerns growth. If one looks at developed countries from 1950 to 2030, in 80 years, the income per capita at constant prices of 2005, or purchasing power parity prices, went from \$9,000 to something like \$70,000 in 2030. The growth is absolutely impressive in 80 years. The other very impressive thing is the mixture of convergence and divergence in the world economy. It includes the very fast growth in Asia on the one hand and the increasing divergence with Africa on the other hand.

In combining demographics and this kind of change, one can get the evolution in the shares of GDP in the world. When one looks at the shares of regions, of course, developed countries are losing very much of their share in global GDP. Back in 1950, it was 60%. Today, it is above 40%, 45% more or less. Tomorrow, in 2030, it will be less than 40%, or 38%. If we look at Asia, it was slightly above 15% in 1973, it is now around 20%. It will be 38% exactly in 2030.

Then, Prof. Bourguignon proposed an analysis of the impact of the current crisis on the future growth rate. His main conclusion is that emerging countries will be little affected by the crisis, something that Governor Noyer also mentioned. It is because those emerging countries can rely on very big domestic market, they will be less sensitive to what will happen in the global economy.

The final point made by Prof. Bourguignon concerns the global industrial production. He emphasized two phenomena. First, the global deindustrialization (decay of the share of manufacturing production in total production) will continue because of the switch in demand towards services away from food, away from primary products. Second and more importantly, the change in the geographical allocation of industrial production. Basically, industrial production is relocating from developed countries to emerging countries.

In the developed countries, the share of industrial production in GDP has gone down by more than 10 percentage points in 40 years and this trend will continue.

Because of lack of time, Prof. Bourguignon left for the discussion his comments on downside risks.

After Prof. Bourguignon's talk on global economy, Mr Fumio Hayashi, Professor at Hitotsubashi University, focused exclusively on Japan. More precisely, he focused on how GDP grows overtime. He recalled that GDP is an aggregate macro-economic variable and therefore depends on many factors; labor market, goods market, financial markets. Therefore, a general equilibrium perspective that takes into account supply and demand in various markets is required. That is why Prof. Hayashi explicitly relied on a certain type of model, namely Dynamic General Equilibrium models.

Prof. Hayashi focused on the supply side and the 'total factor productivity' (TFP) that is the part of GDP that cannot be accounted for by factor inputs, capital (K) and labor (H, total labor hours worked). This represents the level of technology or the overall efficiency level for the economy.

After some calculations, Prof. Hayashi showed his basic results. By 1990, Japan was about three-quarters of the US in terms of per capita GDP. Then, Japan's long decline started in 1990. Japan has been falling behind the US and many other countries. In 2004, it's 70% of the US.

On the side of the labor productivity, Prof. Hayashi showed it has slightly increased. Why has Japan's GDP per capita declined despite the relatively stable labor productivity? According to Prof. Hayashi, it is because hours work per capita has declined mostly in the 1990s. The Japanese decided to take more leisure, to be lazy.

To summarize, TFP has been the main source of growth. That is true for the high growth era of 1960 to 1990, and it holds also for the long period since 1990.

To conclude, Prof. Hayashi moved to policy implications of his model. There is a great deal of uncertainty about the effect of conventional monetary fiscal policies. Monetary fiscal policies may affect K and H or capital labor ratio in the short run, but in the long run it does not. What the government should do? His policy prescription is to focus on TFP growth. Good news is that there is lots of room for growth in Japan, not in manufacturing, where Japan has caught up with the US, but in agriculture and services.

After these two presentations, Mr. Lechevalier emphasized the complementarities of their discussions. He then asked a question to Prof. Hayashi about the possibility to apply his model to the global economy. Prof. Hayashi replied in the negative.

Then, Mr. Lechevalier gave the opportunity to Prof. Bourguignon to specify his view on downside risks for the global economy.

Prof. Bourguignon argued that the first downside risk can be summarized in two scenarios regarding the

current crisis. One is in the years to come, western countries, Japan, and Australia and New Zealand will go through what some people called 'anemic growth,' or very slow growth, like Japan after the 1990 crisis. The other scenario is that there will be a second dip in the United States economy and probably in Europe on account of the problems present in Europe on the financial side.

This will affect emerging countries and affect global growth. The scenarios which have been analyzed by the IMF are suggesting that the worst that can be expected is a drop in the global activity by 1.5 percentage points in the world in the next 4 or 5 years. This is not negligible. The problem is to know what will be the capacity of emerging countries to find a solution to this drop in external demand by relying on their domestic market. According to Prof. Bourguignon, the real downside risk in this scenario is here. Will China, in particular, be able to shift its activity from export orientation to domestic demand?

The second downside risk would be that disasters of the type which unfortunately struck Japan this year, may become more frequent, and this will be triggering real environmental adjustments in developed countries and move toward a cleaner economy.

The third downside risk has to do with globalization process and with the present crisis. The globalization process and the reallocation of activity that Prof. Bourguignon has mentioned in his presentation are generating adjustment, generating social cost which in some countries are found to be very high; more inequality in many countries in the world: in the United States, in the United Kingdom, in Germany, and in Japan. There is amounting dissatisfaction with this distribution of the benefits from globalization, and this is something which may at some stage stop the whole process.

Prof. Bourguignon concluded in saying that the three downside risks he distinguished are the main risks that we are facing, none of which is really to be ignored and because of that, we know that many unexpected things may happen in the years to come.

Finally, Mr. Lechevalier closed the session.